DOW THEORY LETTERS INC.

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Mar. 19, DJIA 979.85; PTI 554; A-D Ratio -22.89
Mar. 26, DJIA 1003.46; PTI 576; A-D Ratio -22.53

THE MARKET: The public (like Pavlov's famous dogs) is easily conditioned by repetitive events. Thus, over the last decade the public has seen the Dow bounce off the 1000 level three times and each time the result has been the same — losses for stockholders. This has given rise in the public's mind to the following axiom: "Every time the Dow gets near or over 1000, brother, sell! Over 1000 on the Dow is a heaven-sent opportunity to take the money and run!"

The public was guided by the same kind of thinking during the 1930's and 1940's, even while the 1929-32 crash remained fixed (should I say seared) in their minds. The old axiom stated: "Every time the Dow gets up around 200, get out. The Dow is never going back to the old 1929 high of 381, and at 200 on the Dow, the fire alarm is ringing." The 1932-37 bull market topped out at 194, and a crash followed. The 1942-46 bull market rallied to 212, and a collapse followed. In 1947 the Dow pushed up to 186, then promptly fell away. Again in 1948 the Dow bounced up to a June high of 193. By June of 1949 the Dow was back at 161.

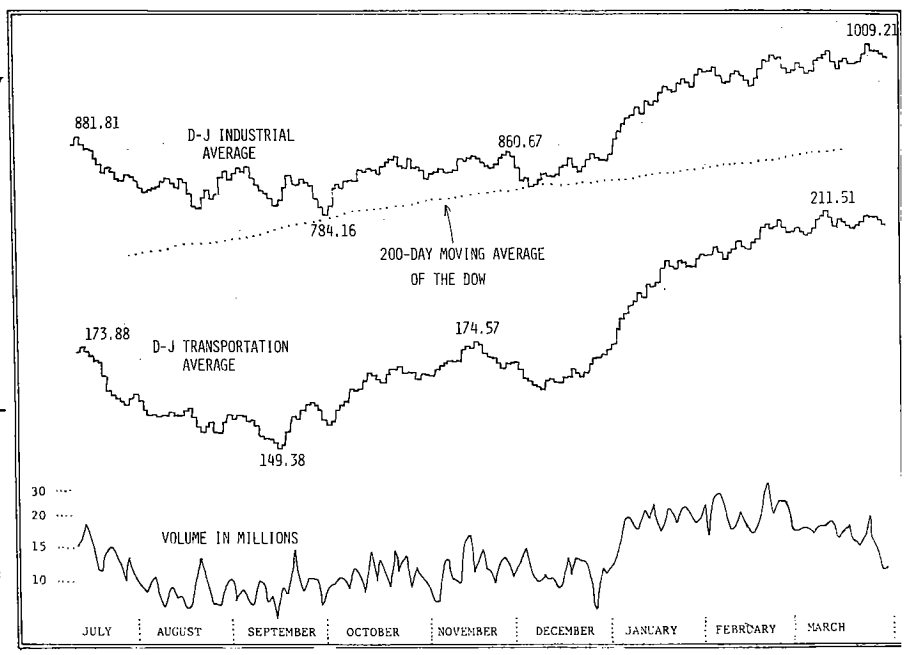
And then the unexpected occurred. A new bull market was born on June 13, 1949. By January 1950, the Dow went over 200. During 1954 the Dow rolled over the "unbelievable" 1929 high of 381. The 400 level was breeched in December of 1954. The year 1956 saw the 500 level bettered. The 600 mark fell in 1959. By 1961 the Dow had moved over 700. The 800 level fell in 1964. The 900 level went in 1965. 1972 saw 1000 on the Dow (closing basis) for the first time. The year 1973 saw the Dow close at an all-time high of 1051.70.

But so far, the Dow has never bettered the fabled 1000 level, consolidated, and then moved out from there. The 950 to just-over-1000 level proved to be a trap in 1966, 1968 and 1972-73. I have illustrated this sad fact on the page 2 chart (courtesy of Horsey, Salisbury, MD 21801).

As I explained in the last Letter, we have a new set of circumstances today. For the first time in history, we have a newly confirmed primary bull market pushing into the 1000 level. The nearest comparison I can think of is the situation during the 1954 bull market when (in November of that year) the Dow finally climbed over the "impossible high" of 381. That 381 corresponded with the high of September 1929, a peak which stood for a quarter of a century. Those of us who were watching the 1954 market remember the feelings of wonder and trepidation as the 381 mark finally fell by the wayside. The 1954 bull market (then in its second psychological phase) continued to climb until the 1956 peak of 520.

During the second phase of a primary bull market (and we are in one now) the market goes up as it reflects the obviously improving prospects for corporations and corporate profits. The second phase of a bull market is "normally" the longest phase, and it is the phase which usually sees the most deceptive and tricky action. It is not unusual for the second phase of a bull market to terminate with a deep and frightening secondary correction.

All of which probably prompts subscribers to say something like this, "Russell, never mind the long-winded descriptions. Just tell me where we are now in this second phase." All I can offer is my guess. I would think, based on the prevailing psychology, that we are better than half through the second phase. I would guess that the second phase could continue until it confounds and confuses most of today's many bears (and bearishness is still rampant, both on Wall Street and on Main Street). I would guess that this second phase will end when the public shows real indications of wanting to climb aboard. So far, the public is selling their heads off, mutual fund redemptions are heavy, odd lot selling is heavy, and most Americans are still "trying to get even" on their 1966-74 bear market losses.

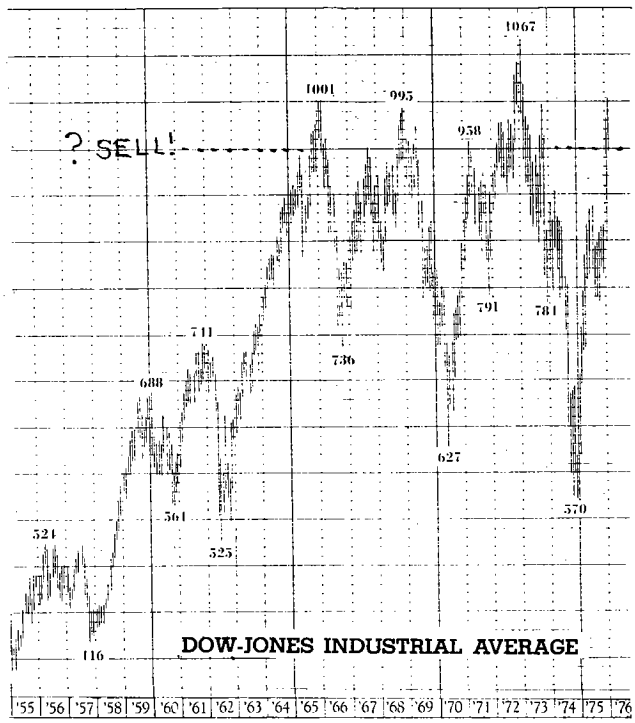


Once again, in this difficult area, I am including the rundown on the peak values for some of the critical indicators which I watch. I have added the broad NYSE and S&P 500 Stock Indices.

It shows a series of peaks, extending over a period of almost two months. The picture does not necessarily indicate a secondary market top. So far, the

market since mid-February has run out of upside strength. But by the same token the downside has not been particularly impressive either.

'76 BULL PEAK	INDICATOR	PEAK VALUE
February 4	D-J Utility Average	91.90
February 20	Daily New Highs (NYSE)	451
February 24	A-D Ratio	-21.64
March 11	D-J Transportation Average	211.51
March 24	D-J Industrial Average	1009.21
March 24	Cum. Most-Active Stock Index	-714
March 24	NYSE Composite Index	55.15
March 24	S&P 500 Stock Average	103.42
March 26	Primary Trend Index (PTI)	576
March 29	D-J 40 Bond Average	72.67



I put the odds for a secondary reaction at about 50/50 at this time. I put the odds that high because there are three technical problems which now present themselves. "Three," you reply, "then why don't you put the odds even higher than 50/50?" My answer is that in a primary bull market one should always make the market prove the bear case. The benefit of the doubt regarding the trend should always go in favor of the prevailing primary trend, which in today's case is bullish.

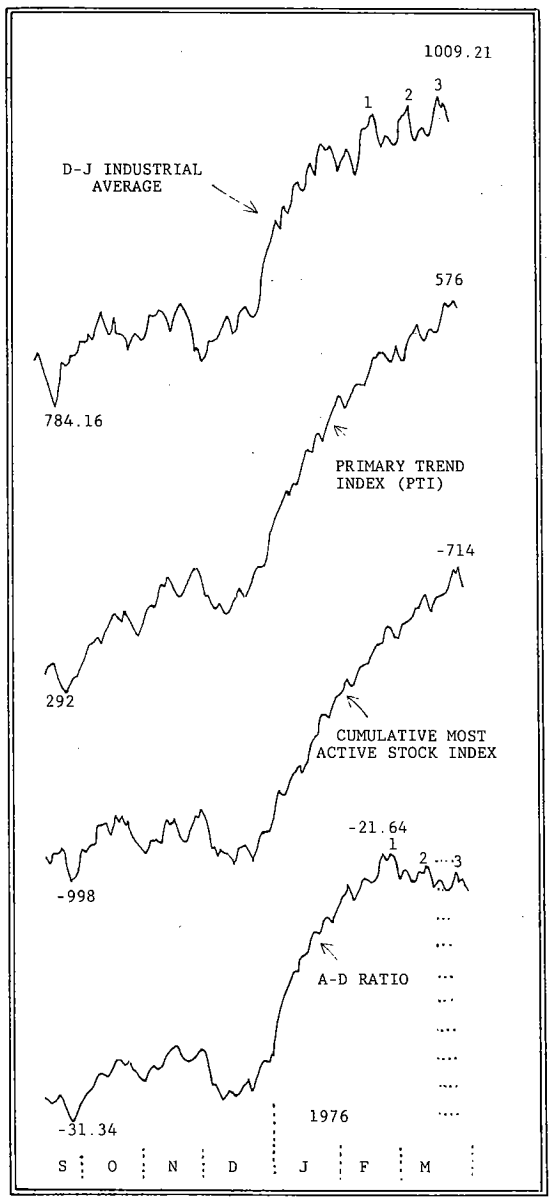
THE PROBLEMS: At any rate, the first market problem is that the Dow has not stayed stubbornly above the 1000 level. In the last two Letters I wrote that if the Dow could rally above 1000 and hold there while it absorbed all the profit-taking, the way would be prepared for a broad upward movement. But on March 29 (having climbed previously to a March 24 peak of 1009.21), the Dow slipped below 1000 again. This action does not necessarily insure a secondary correction, but I would have preferred that the Dow held stubbornly above the psychologically important 1000 level.

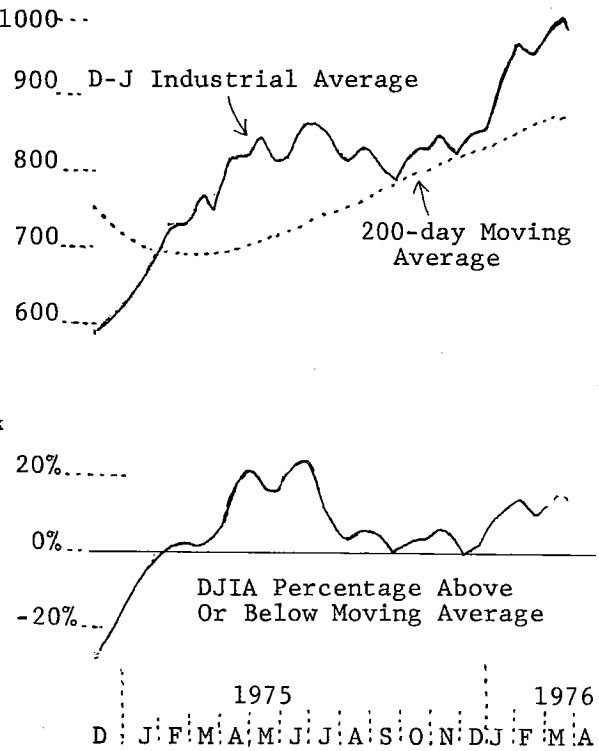
Second, the Transports did not confirm the Dow strength following March 11. Transports recorded their high of 211.51 on March 11 (see page 1 chart), and although Transports have not really broken down since, they did refuse to confirm the March 24 Dow high of 1009.21. In due time, the carriers may come through, but so far they have been resistent.

What bothers me most, however, is the relationship of the Dow and the A-D Ratio, as seen on the accompanying chart. During February and March the A-D traced out three consecutive declining peaks (labeled on the chart) while Industrials rallied to three consecutive higher peaks. This constitutes a definite divergence between price (the Dow) and breadth (A-D Ratio). Although the divergent pattern does not guarantee a major decline, many major declines have followed this kind of breadth-price action. I consider the 970 level on the Dow as a very important one. If the Dow can hold above the March 4 low of 970.64, regardless of any forthcoming Transport or A-D weakness, I would consider this a sign that the current corrective process will be of shallower proportions. On the other hand, if the Dow breaks 970.64 in the face of A-D and Transport weakness, I would prepare for a full secondary correction.

THE PLUSSES: As late as March 29 the D-J 40 Bond Average touched a new 1976 high. The Utility Average on March 25 bettered the 87.26 level discussed in the last Letter. This action has turned the Utility Average near-term bullish. The strength of this market since mid-March has resided in the advancing trend of the 40 Bonds and the Utilities. If this strength continues, it would constitute a big plus for the rest of the market.

Finally, the Cumulative Most-Active Stock Index (CMAS) has been a powerhouse all year (see chart), and it has consistently been a leader in this bull market. CMAS hit a high as recently as March 24. This indicator is actually an A-D line of the 15 most-active stocks (daily, NYSE). The trend of the most actives is often a harbinger of things to come in the general market. CMAS has been much stronger than the A-D ratio since late-February. This is telling us that breadth in the most-actives has been stronger than breadth in the general market. If the strength in CMAS continues, this would again represent an outstanding plus for the market.



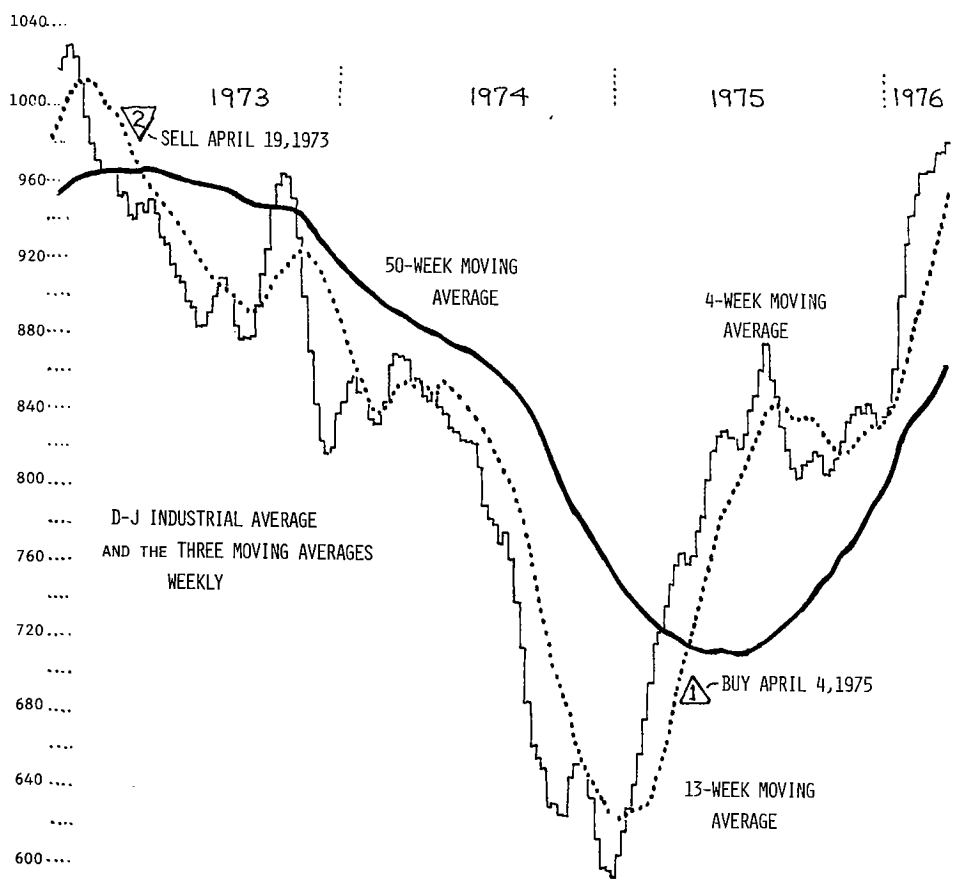


MOVING AVERAGES, PERCENTAGES: Dostoievski, the great Russian novelist, once wrote that we should "be simple and rediscover the world." At times, as I plow through my charts and statistics, I am inclined to agree with him.

Almost daily I receive conflicting reports and opinions regarding the market, the nation and the Free World itself. Many of my analyst friends have sent me studious treatises on the horrendous plight of America, the chaotic state of the world money markets, the collapse of Western morality, and the fall of our institutions. I never argue with the bearish experts. I know that the Post Office is in shambles (boy do I know that), I've heard that our military is not keeping up with the Russians, I read that the US is losing ground to the Communists around the world, I would guess that Africa and Asia are in dire straits. If "inside information" and pessimistic appraisals could send the stock market into the basement, I get enough here every week to smash the Dow under 300.

The secret that I must reveal to subscribers is that despite all I read (and I read myself half-blind every week), despite all I hear (and I hear as much as the next guy), I really don't have the answer to where we're all going to be next week or next month, much less next year. And, of course, that's why I lay so much stress on timing in this service. I do know that there are bull tides and bear tides. A bull tide can take the market and the economy way past the point that the pessimists think is impossible. And a bear tide can send the market far below the levels that the pessimists have red-lined on their charts.

But the question, the critical question which the died-in-the-wool bulls and the stubbornest bears never like to deal with is WHEN. That's where I use Dow's Theory and everything else at my command. I want to deal with them. When a bear market expires (as one did in late 1974) I turn bullish (as I did in December 1974). But I don't try to quantify my bullishness. I didn't say in 1974, "Friends, this is a new bull market and it's going to take the Dow to 910 within a year." I stated that it WAS a bull market, and it could do anything it wanted, with or without my permission. I did say that it was time to dump our bearishness, it was time to readjust our thinking, and it was time to buy stocks.



By the same token, one of these days (I don't know when) I'm going to turn bearish again. At that time I'm going to tell my subscribers to play it very, very safe and to prepare for a major or primary bear market. And at that time I will not predict that the Dow is going down to 600 or 400 or 200. I'll just say that it's GOING and that we better not get in its way! Thus, I will finally be in harmony with my astute and bearish friends, but that time could be months away or even years away. In the meantime, all I have to go on is my charts, my knowledge, my seat-of-the-pants intuition and any favors the powers above care to bestow on me.

At any rate, I want to write about timing now. One study which is very simple (Dostoievski would like this one) has to do with the Dow Industrial Average and its percentage position above or below its own 200-day moving average (MA). I have shown this study on the accompanying chart.

 Over the years, I have noticed that anytime the Dow gets around 25% above its MA it is in "overbought" territory. That 25% means that the Dow is straining on the upside and it may need a rest or it may be ready for a full correction. The same can be said (in reverse) when the Dow is around 25% below its MA.

Back in October, 1974, during the worst of the bear market, the Dow dropped 27% below its MA. That was an extraordinary figure, and it suggested that the selling was becoming very emotional and "overdone" on the downside.

I used that 27% figure as an indication that the bear market was becoming very violent and desperate on the downside, and that the bear was therefore in its third and final phase. It was nearing exhaustion on the downside. In December, 1974 the Dow at 577 was 23% below its MA, and bearishness was worse than ever. That is where the bear market died.

A new bull market was born out of the black pessimism of late-1974. The Dow turned up in December. The climb was to be spectacular. On February 5, 1975, the Dow crossed above its MA as we can see on the chart. It is of interest that the Dow has held above its MA ever since. In May, 1975 the Dow got as high as 23% above its MA, an overbought signal. In late-June and early-July, 1975 the Dow roared to 24.5% above its MA, and that proved to be a top for the next five months. The ensuing correction took the Dow back exactly to its MA on October 1 and again on December 5.

During January, 1976, bull strength returned and the Dow pushed up to new highs for the bull market. Where does the Dow stand now in relationship to its MA? Currently, with the Dow in the 993 area and the MA at approximately 870, the Dow is about 14% above its MA. Thus, from the standpoint of this study, the Dow is not yet in overbought territory. A further hopeful sign is that the MA is now climbing rapidly, thus tending to reduce the upside percentage spread as the weeks pass by.

* * *

Now for a second and more familiar study of the MA's. This is a study which was last presented in Letter 655 and one which I want to update now. For this study I use three MA's of the Dow, a short-term or 4-week MA, an intermediate-term or 13-week MA and a long-term (primary) or 50-week MA. Short-term "alert" signals are given whenever the 4-week crosses above or below the 13-week MA. Intermediate and sometimes primary buy and sell signals are given whenever the 13-week MA crosses above or below the 50-week MA. As veteran readers know, I always give much greater credence to any crossings when those signals occur in the direction of the primary trend of the market (as defined under Dow Theory).

As you can see on the lower page 3 chart, the big buy signal was given on April 4, 1975 when the 13-week MA crossed above the 50-week MA. I had suggested buying much earlier (in January) because we had received a primary bull signal. The April 4 MA buy signal was simply a further confirmation of the strength of the market.

Normally, during a bull market the 13-week MA will hold persistently above the 50-week MA. The exception is during an occasional severe secondary reaction, and there we will see a temporary dip in the 13-week MA below the 50-week MA. So far, this kind of action has not occurred in this powerful bull market. During August to October, 1975, we did see corrective weakness, and in that area the 4-week MA dropped below the 13-week MA on a short-term basis. But the closest the 13-week MA has come to the critical 50-week MA during this bull market was during the final week of December, 1975, when the spread between the two narrowed to 33 points.

At present, the three MA's are in the bull position with the 4-week holding above the 13-week and the 13-week in turn holding above the 50-week MA. The spread between the 13-week MA and the 50-week MA is increasing and now stands at 90 points.

Ultimately, during this second phase of the bull market, a major correction will occur. Then we will see the 4-week MA sink below the 13-week MA (a bearish alert). Next we will probably see the 13-week MA drop temporarily below the 50-week MA. That action will undoubtedly be accompanied by great fear on the part of stockholders. I do not think, however, that this series of events will mark the end of this primary bull market. It will be something to reckon with, and it will be a phenomenon worth understanding thoroughly. Any selling or "moving to the sidelines" should be done on the sell alert signal. If we get one during the period ahead, it will be reported immediately in these reports.

MONETARY BACKGROUND: In the last Letter I placed emphasis on the NYSE Financial Index, and I stated that although this Index had been lagging it would be important to see whether it could move to a new high for 1976, and then whether it could move to a new high for 1976, and then whether it could better its 1975 high of 54.18 (the Financial Index is the only NYSE Index which has not yet bettered its 1975 peak).

Last week the Financial Index did rally to a new 1976 high, and hopefully, it will now try for the '75 high. Only time will tell whether this broad Index (over 200 financially oriented stocks) is fated to better last year's high. But my bet, this being a primary bull market, is that before too long the NYSE Financial Index will climb above 54.18. That event (assuming it occurs) would be a big plus for the market.

For many years I have used another set of indices to gauge the "financial health" of Wall Street. That study concerns itself with the trend of both the money-oriented D-J Utility Average and the obviously money-oriented D-J 40-Bond Average. I have been following my chart of the Dow and the Utility and Bond Averages for years, and I don't know of a time when a rising trend in both the Bonds and Utilities was not accompanied by a strong stock market. Conversely, I don't know of an instance when both the Utility and Bond Averages were declining when we didn't also have a troubled or declining stock market.

The accompanying chart traces the Dow and the Bond and Utility Averages back to 1973. This review may seem a bit complicated to subscribers who are not used to following charts, but I consider this study crucially important, and I would like all my subscribers to try to follow this discussion.

First, note that the long bear market trendlines designated by A's on the chart. These declining trendlines in Utilities and Bonds

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April 30, DJIA 996.85; PTI 585; A-D ratio -23.38

May 5, 1976 Letter 663

CHANGE: On April 29, Hubert Horatio Humphrey announced he would not seek the Presidential nomination. The Democratic slot is being increasingly paved for the man with the "anti-political" look, Jimmy Carter. In my mind, it's all part of the total top-out in public sentiment regarding politicians, big government, big spending and big words. The public has had it.

The facts are finally hitting the American people and hard. The gravy train has run off the track. In its latest report, the Morgan Guaranty Trust Co. of NY states that the Federal budget is headed "for a critical choice: more taxes or slower growth in benefit payments." The choice will be "forced" by the fact that the two chief sources of money, the Social Security tax and the declining share of the budget claimed by defense spending, are not likely to provide much further assistance.

A substantial increase in taxes or a brake on Federal spending, that's the choice. This choice will force major changes and dislocations across the face of the nation. I believe that "substantially higher taxes" are out. That leaves slower growth. All this the stock market is attempting to digest and appraise. My own feeling is that slower growth will prove to be constructive and bullish for the long-term good of the country.

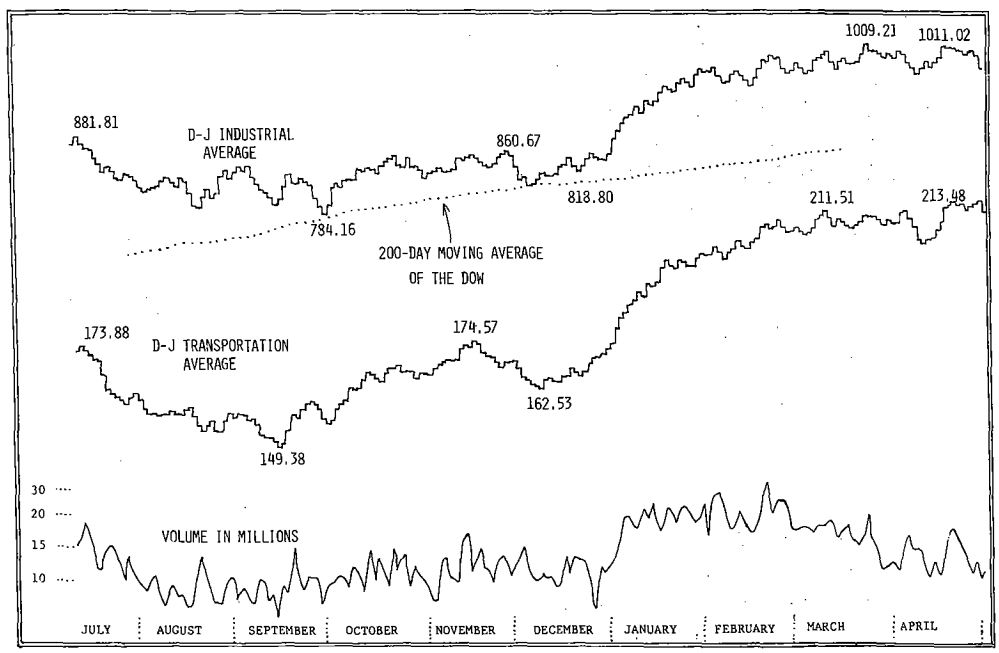
THE PICTURE: An incident occurred a few years ago which reminds me of the stock market. I was at the Tijuana bull ring (which is about 25 miles south of here). I arrived about an hour before the scheduled bull fights (which, animal lovers, you'll be happy to hear I no longer attend). As is the custom with "aficianados," I visited the bull pens to inspect the size, quality and temperament of the bulls. Now you may not know it, but there is no more dangerous animal on this earth than the true Spanish (or Mexican) fighting bull. A fighting bull is bred for bravery and instinct for battle. He has no more kinship to your farm variety bull than does a black leopard to a domestic pussy cat.

At any rate, an American near one of the bull pens mistook the placidity of the bulls as an indication that they were docile or perhaps even harmless. After all, what was all this storybook nonsense about bravery, ferocity, and fighting instinct. With true Yankee nonchalance, the American leaned over the pen and dropped a coke bottle on the nearest bull. In a flash the bull whirled around and hit the side of the heavy wooden pen. He struck the pen with such brute force and ferocity that I thought the American would tumble on top of the bull in sheer fright. I will never forget the look of horror and shock on the face of the tourista. If nothing else, this gentleman learned to respect forever the fighting bull.

In its own (much more subtle) way, the stock market is not too different from the fighting bull. The market loves to move along, making everything appear logical and simple and understandable—and then it just pulls the rug out and leaves all of us simpletons wiping our brows and muttering about "someday finding a business that makes sense." The kind of action we're seeing now (and I've warned about this repeatedly) is characteristic of the second phase of a bull market. For it is in the second phase (where we are now) that we can expect the most deceptive and exasperating market action.

Let's look at the big picture. The primary bull market ended in 1966. Then for six years the market whipped up and down, each peak in the A-D ratio registering below the previous low. Under the guise of new highs in the Dow (1968 and 1973), the great mass of stockholders were decimated during those early gyrations of the bear market.

Then came the great crash of 1973-74. Those who had survived the early years of the bear were pulverized during the 1973-74 collapse. In that final phase of the bear market, the bravest and stubbornest went under. The institutions with their "favorite fifty," the pension funds with the employees' money, the smart boys with their giant holdings



of glamour stocks and "one decision" numbers, all were slaughtered by the final, destructive agonies of the bear.

All was not lost in 1974, however. That year produced the wind-down of the bear market and the birth of the new bull. But even here, it wasn't easy. Reputations were wrecked and mistakes were compounded as the Dow climbed from its December, 1974 low of 577.60—up, up into the blue yonder. Onward went the bull— up into 1975 and then into 1976. But even though the trend was strongly bullish, stockholders were cruelly treated. The public, disbelieving and increasingly skeptical of the rise, chose to increase their selling as the market advanced. Odd lot sales surged to record proportions during 1975-76. And mutual fund holders, seeing some of their earlier bear market losses being recouped, flocked to the windows to redeem their shares. The latest March figures show record mutual fund redemptions of $350 million over sales, higher even than the previous February record of $310 million redemptions over sales.

So much for the public, which had ridden their stocks down in the 1966-74 bear market and which had elected to "sell 'em before they go up!" The market was putting its attention on a new "problem." The option business was the latest brainchild of Wall Street, and it had been booming all through 1975. The Street had discovered a new way of coining money, buy and sell options. Option services were created, option advertisements dotted the newspapers, the public had found the perfect way to make leveraged profits without taking undue risks.

Obviously, such a potential bonanza bothered the bull. In fact, it damn well made him furious. So what did he cook up next? Something which is typical of the second, deceptive phase of a bull market. The bull decided to "play dead" in 1976. The bull market rallied a little, it consolidated, it popped over the Dow 1000 mark, it dropped back, it wiggled, it drove all the advisory services nuts with alternate buy and sell "signals." But one thing it did for sure. It killed the option buyers. It knocked the volume right out of the option business. Option excitement just dried up and went "poof."

All of which brings us to May, 1976. I must say that the action here reminds me of some of the confusion which developed during the second phase of the 1949-66 bull market. That second phase lasted from 1953 to 1957. The public stayed skeptical throughout the '53 to '57 period. The market, following its initial 1953 to April 1956 run-up, became confounding and then outright maddening. But we lived through it, and we'll live through today's series of gyrations as well. My feeling is that the longer this current era of confusion, correction and consolidation endures, the greater the pessimism which is generated, the longer the primary bull tide is held back, the greater will be the ultimate advance once the primary bull tide takes hold again.

THE MARKET: "What's the market doing?" That's the most frequent question on Wall Street, and strangely there are very few who know the answer at any given time. The sophisticated answer is, "What market are you talking about?" The snide answer is, "It's doing what it's always doing; going up and going down." The stockholder's all too usual answer is, "It's driving me bananas as usual. What else do you want to know?"

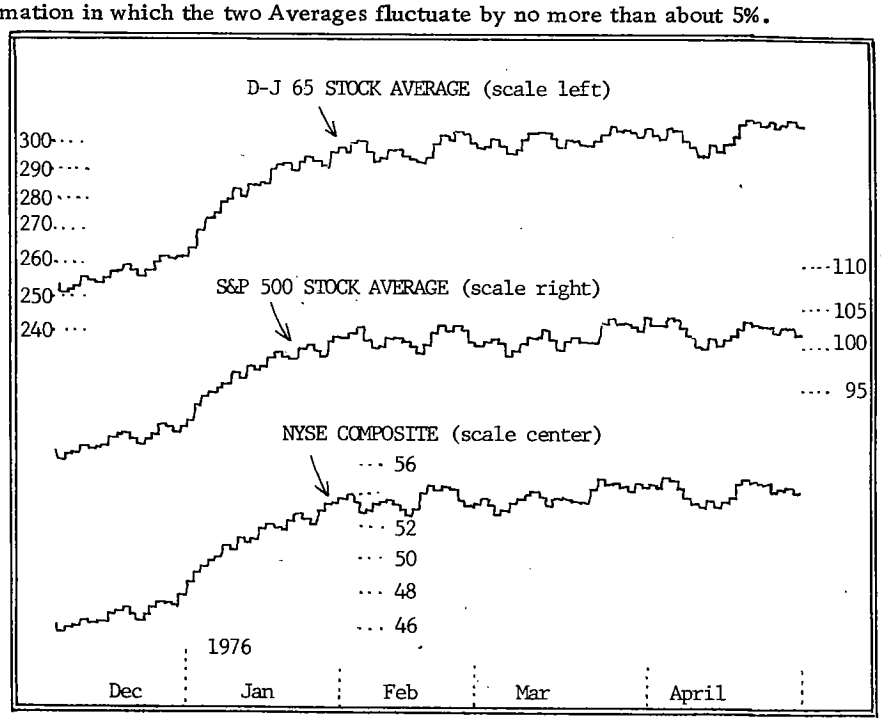
Often, the best true answer to the question of what the market is doing is given by the broad Composite Averages or Indices. I have included a chart showing the D-J 65 Stock Average (made up of all the stocks in the D-J Industrial, Transport and Utility Averates). Next we see the S&P 500 which is made up of the 500 largest Big Board companies. Last, we see the NYSE Composite which includes all 1545 NYSE common stocks (no preferreds). Each of these is drawn to semi-logarithmic scale so that they may be correctly compared in terms of percentages (on semi-log scale, for instance, a move of 3% will take up exactly the same vertical distance on the chart regardless of the average).

One remarkable fact immediately presents itself as we study the three indicators. It is that since late-January, all three indicators have been in what market students term a "line." Robert Rhea defined a line as sideways movements of a few weeks or longer in the D-J Industrial and Transportation Averages, formation in which the two Averages fluctuate by no more than about 5%.

Although the Composite Averages are not used in classical Dow Theory, I believe that what we have seen in the Composites since late-January should be termed lines. In basically strong bull markets, a line (following an advance) can take the place of the expected correction. This, I feel, is what is now occurring in the extended sideways movements of the major Averages and Composite Averages.

Speaking of the Composites, it is worth noting that as late as April 21, the D-J 65 Stock Average rallied to 308.10, a new bull market high. This high was not confirmed by either of the other two Composites, and subsequently all the Composite Averages retreated within their line formations again.

All right, now let's turn to the D-J Averages as seen on the page 1 chart. I would say that since late-February both the Industrial and Transport Averages have also been in line formations. Breakouts on the downside (which occurred on April 8) brought in no selling follow-through.



By the same token, the April 21-22 breakouts to new bull market highs (Industrials 1011.02, Transports 213.48) brought in no buying follow-through. Subsequently, the D-J Averages crept back within the confines of the lines.

A number of events are worth noting, however, in connection with the late-April period. On April 26 the cumulative most-active stock index (CMAS) advanced to a new bull market high. Then on April 29 my Primary Trend Index (PTI), which is an amalgam of eight critical indices, rose to 587, also a bull market high. Such action (judging from the past) is not characteristic of a market which is on the verge of collapse.

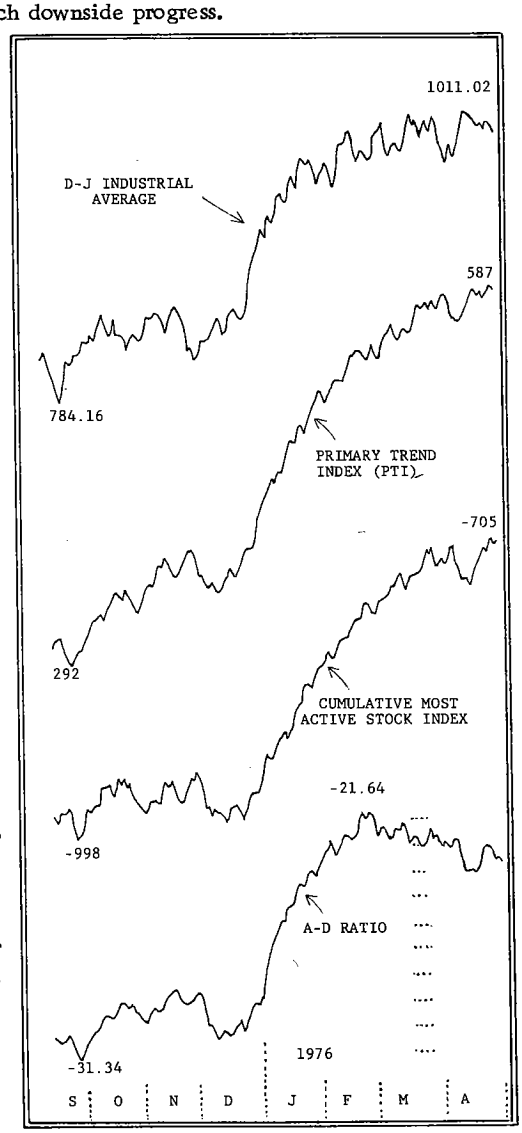
Another interesting observation: the A-D ratio declined on 6 of the 7 trading days between April 22 and 30. Yet the total decline during those 7 days amounted to only 1/3 of a point on the A-D ratio (see chart). That's an awful lot of downside "trying" for a very small-sized loss. All of which brings to mind the old adage, "If the market doesn't want to go down, it is getting ready to move up."

Conclusion: New highs in the Industrial, Transport and D-J 65 stock Averages, the PTI and the CMAS, all within the April 21 to 29 period are indicative of a market that "would like to go up." But the failure (so far) to generate any upside follow-through implies caution and even fear on the part of the bulls. Result: no sustained buying power or selling pressure. Nevertheless, my guess is that this long period of frustration is slowly moving the market towards a "sold out condition." That means the next major move should be up.

Question: What about your statement in the last report about the "fourth try" for the Dow above the 1000 level? We closed above Dow 1000 on April 20-22, dropped below 1000 again, and on April 28 closed above 1000 for the fifth time this year! What gives, Russell?

Answer: It's easy; the market is simply making hash of the "fourth time" principle, just as it has made hash of so many other mechanical principles during 1976. But to me, the factor to take note of in this bull market is that so far, the market has failed to generate any real selling pressure despite three months of divergences, non-confirmations, upside failures, technical flaws, etc. Furthermore, my odd-lot studies show that the odd-lot public rushes to increase their selling every time the Averages falter or decline. Such action is characteristic of a market that is not going to make much downside progress.

Therefore, while I have viewed the reluctance (so far) of the Dow to hold above 1000 as a negative, I also view the lack of selling pressure, the persistent caution (actually, it's fear), the readiness of the odd-lotters to increase selling on any decline, as a brake against slipping too far on the downside. Result: stalemate, as of this writing, and continuing trading ranges or "lines" in the various Averages.



Question: How long could this stalemate last? Answer: It could last right into the summer, but I would be surprised if the market did not produce a real trend by the end of July. From the end of January to the end of July is a period of six months, and it is a rare market that does not produce a definite trend within a six month period. Actually, I would be surprised if we did not get a definite trend by early June.

Question: I note that new highs on the NYSE have dropped down to well under 200 a week. Is this bearish? Answer: I view new highs and lows as a coincident or lagging indicator. The contraction of new highs is merely confirming the fact that the A-D line topped out over two months ago on February 24. On the other side of the coin, new lows have not expanded either. An expansion of new lows would be an indication of spreading weakness.

Question: Russell, what happens if interest rates start climbing up again? In fact, isn't that what's occurring now? Answer: The obsession with the monetary fundamentals is now literally consuming Wall Street analysts. Every jiggle in the money supply, every slightest blip in interest rates, is taken to mean doom for the bull market. My feeling is that the bull market is taking the whole monetary picture in stride, and that the market will assess the meaning of the entire monetary picture well before any single expert or group of experts. Personally, I continue to view the monetary picture as constructive.

THREE THOUGHTS: One of the adages (it's my own) which I apply to Wall Street is, "The market will do whatever it has to—to drive the greatest number of people out of their minds." Obviously, the market has decided that a stalemate will do the trict at this time.

My second thought is one that I repeat often. "Things," during a primary bull trend, tend to increase in value (this means stamps, coins, art, equities, antiques, real estate, etc.). This is simply another way of saying that during a

bull market time is in favor of the bulls. Which is another way of saying, investors please be patient. In time, this bull market will take everything up, up and away.

The great majority of line formations in primary bull markets are resolved to the upside. This thought is probably a corollary of the "values increase in a bull market" concept, but I would say that the longer these line formations hold, the better the odds that the market will ultimately swing to the upside.

ANGER: Indulge me, dear subscribers. Humor me while I depart from a strict discussion of the stock market, and enter into the realm of the emotions. For what good is it if we gain knowledge of (or even make a fortune in) the stock market, if we ultimately lose (or never really re-own) our minds? Actually, in view of the stock market action of the past few months, this might be an opportune spot to turn to the subject of anger.

There are four types of explosions which every healthy human being must be able to express. The four are grief, happiness, sex and anger. No human can develop anything like his full potential if he is unable (unwilling) to express all four of these basic emotional explosions.

Let's examine "the big four." It has always been acceptable to express joy, happiness and pleasure. Literature through the ages is full of comedy and laughter. No problem here. Laugh, giggle, wave your hands, it's all right.

Next we come to grief. Grief has always been fine for women to express, but until recently it was held that "a man doesn't cry." Fortunately, that bit of insanity has been changed, and crying is now acceptable, even for red-blooded American males.

Over the past decade the sexual explosion has become not only acceptable, it has become the mark of late-nineteenth century society. Impotent or not, men and women are now at least allowed to engage in sex, and this new permissiveness has turned (recently) into both a moral and health problem. Whatever else it has done, however, sex is no longer a problem of psychic repression.

That leaves anger. Anger to me is the last of the forbidden explosions. People will take your laughter, they will take your crying on their shoulder, they will accept endless amounts of sexual chatter and activity, but raise your voice, brother, and you've lost a friend.

I relate this anger-phobia directly to the "be nice" syndrome, and the American preoccupation with "being loved." After all, we all HAVE TO BE LOVED, don't we, and I mean be loved by EVERYBODY. And the answer is that it is great to be loved, it is nice to be loved by everybody. But unlike children, adults can survive without love if need be. Albert Ellis in his fine book, "The Guide to Rationale Living" talks about the fantasy which people have concerning their "dire need for love." And that's just what it is — a fantasy. The fact is that since childhood we are told, threatened, cajoled, scolded into "giving ourselves away," smiling perpetually, being forever nice, all on the theory that if we do so we will be loved.

Those who are religious point to Christ and his overwhelming ability to love, but I retort that Christ warned that he came not to bring peace but "a sword." At another point, in a surge of anger, Christ whipped the moneychangers out of the temple. When it came to a question of reacting honestly and truthfully, or acting like a love-dispensor, Christ acted out of his feelings, and that could imply righteous anger. Christ never bowed to what people wanted, he dealt only with the truth and often the harsh truth.

Anger, righteous anger, can be an emotion of strength. To repress our anger is to cut ourselves off from one of our basic emotions. I have always claimed that a man who is incapable of (let's say he won't) reveal his anger is a whimp. He is only partly a human being and only partly a man. And since all humans feel anger, I tend not to trust a man who will not reveal what is going on within him. I don't trust a man who won't get angry.

Over and over again we read where anger has been repressed and tragedy is the result. There is the good little schoolboy, the model boy, who represses his anger for fifteen years and then kills his entire family with a shotgun. There are the whimpy lawyers who followed along with their President through Watergate instead of expressing the real indignation and anger (which surely some of them must have felt, but which just as surely they were afraid to express). There is the criminal who is afraid of getting near his real hostility and anger but expresses it daily by stealing autos on every parking lot in the city. And there is you (and me) who listen to all kinds of nonsense day in and day out. And we take it (politely) in, because we don't want to risk telling Joe or Ethyl or Pop or friend that he's boring us or he's gossiping or he's dead wrong or he's driving us up the wall.

The amount of disease caused by unexpressed anger must be astronomical. I won't even go into my theories about this one except to say that I personally feel that cancer (in my opinion, the disease of resignation) and arthritus (the disease of repressed physical anger) will someday be shown to be directly set off by anger that will not be expressed. Disease (again in my opinion) can serve many purposes. (1) It can be a way of handling or dissipating guilt. (2) It can be a way of getting support, attention. (3) It can be a way of producing a symptom which must be faced and experienced on a psychic level, in other words, "get into your head, and you'll get rid of the disease." (4) Finally, disease can be a way of committing suicide, a way of "solving" an unsolvable life situation by literally leaving this earth.

I know some subscribers must be reading this and saying, "This Russell, he's way out. Who needs this nonsense when all I'm trying to find out is which way the market is going over the next month!" My answer is that I'm in the communications business, and I like to communicate. I've been studying the market since 1944, and I've been trying to get into my own head (and the heads of others) since 1949. Somehow, it seems to me that both studies go together.

FOOD: Perhaps coincidentally, following the piece I wrote in the last Letter regarding food and energy as the US's "aces-in-the-hole," this CIA report appeared. The article points to possible world droughts and famines. The article mentions that the projected famines will not really affect the US's food production abilities. In other words, the US will be the world's food oasis.

If the CIA report turns out to be a valid prediction, then the US will be in the driver's seat in terms of controlling the world's food supply. Perhaps this will be the final gift of the powers above, their way of handing the US its final opportunity to lead the world towards the concepts of freedom, free enterprise, democracy. Note in the article that China and Russia are expected to have severe problems in their food production. Fate may be dumping into the US's lap the ultimate chance to provide a victory of freedom over state collectivism. If we fail, if we and our leaders prove too stupid or short sighted to take advantage of the forthcoming food situation, then I'm afraid we will deserve whatever we get. That "whatever" could be a total loss of individual freedom with "Big Brother" becoming "Monstrous Brother." (Parenthetically, Britain is now suffering its worst drought in 200 years!).

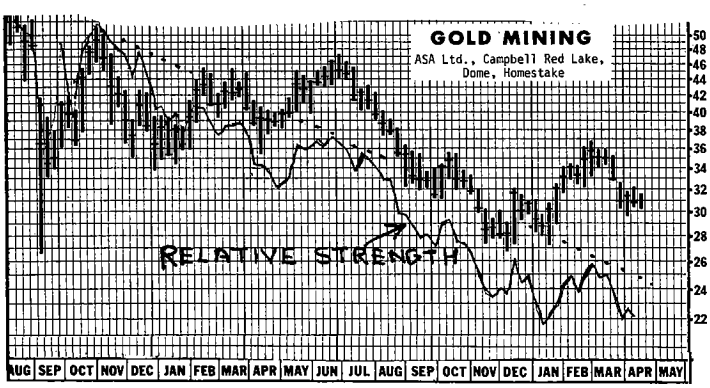
Finally, it occurs to me that the food situation (if handled correctly) could provide a huge and continuing balance-of-trade surplus for the US. It could give rise to an extraordinary period of US prosperity as well as a new rise in US power and prestige (perhaps even in the face of a collapse in the communist economies). Is today's bull market weighing all these possibilities? I wouldn't doubt it.

GOLD: In recent Letters (#657, 658) I offered the opinion that the bear market in gold bullion and most N. American gold shares had ended. I am still of this opinion. The news for gold has been dismal. S. Africa has been forced to sell its new gold production, impending IMF gold sales strike fear into the heart of goldphiles, and most of the original goldbugs are now very quiet. But the January 20 London gold close of $124.60 has not yet been violated. It may be broken tomorrow or next week, but it has now held for over three months.

As far as gold shares are concerned, I recommended Homestake as part of an optional pilot gold position, together with Amgold and later I suggested Dome and Camflo. Result, Homestake is up substantially, as is Dome. Camflo is up slightly and Amgold is down. In Letter 660 I suggested that instead of tying up large amounts of money in the better-grade S. African shares, I would prefer buying the lower quality mines at very low prices. These would serve as "perpetual warrants" on any future explosion in the price of gold. I mentioned Loraine as my first choice (under 1 at the time) and second choices Harmony, Kinross and Western Areas. Loraine has now jumped to 1.50 bid while the other three are also up but not as dramatically.

This does not mean I am enthusiastic about S. African golds. The mines are averaging about 128 for gold now, compared with about 175 last year. Inflation and cost increases have eaten into their profits, as have the new taxes. Earnings for first quarter 1976 should average at least 35% lower than the same period last year. And of course, there's the political situation.

But never mind my appraisal, let's look at what the market says. This chart (courtesy of Security Research, 208 Newbury St., Boston, Mass 02116) shows their five-stock gold average with relative strength (RS) of the golds compared with the Dow. As you can see, gold RS has been declining for 17 months and it still is going down. If gold shares strengthen dramatically, OR if golds hold while the Dow declines, then RS will break up above the long descending dotted trendline. Until then, the market will be saying that you're better off in the Dow stocks than the gold shares, regardless of your opinion. That, in a nutshell, is why I haven't been too enthusiastic about gold shares (regardless of whether they have bottomed or not). WHEN gold shares break that trendline, rest assured all my subscribers will know about it, but so far, it's all hopes for goldphiles (incidentally, I feel that Homestakes 30% participation in a large uranium operation has been one reason for its superior performance.



STOCKS: As the corrective processes continue, the market provides investors with their best opportunity to judge the relative action of individual stocks, noting whether these stocks do better (or worse) than the general market. Such relative strength trends are almost always based on longer term patterns of accumulation or distribution. In many years of observing stock action, I have found that the

Sunday, May 2, 1976

CIA Warns Droughts To Upset World

WASHINGTON (AP) — A Central Intelligence Agency report warns of global political and economic upheaval almost "beyond comprehension" because of climatic changes that have occurred.

The report says the world has entered a period of adverse weather that will reduce crop production and trigger widespread famine and starvation.

The unfavorable weather is likely to last for at least 40 years and possibly centuries, the report said.

MAJOR FAMINES

Based on a study by Dr. Reid A. Bryson of the University of Wisconsin, the report states that long-term changes in the weather may cause a major drought in India every four years resulting in the starvation of 150 million persons a major famine in China every five years and the loss of the Soviet wheat fields in Kazakhstan.

In an addendum to the report, Bryson said he expects a return to something like the climate of the last century.

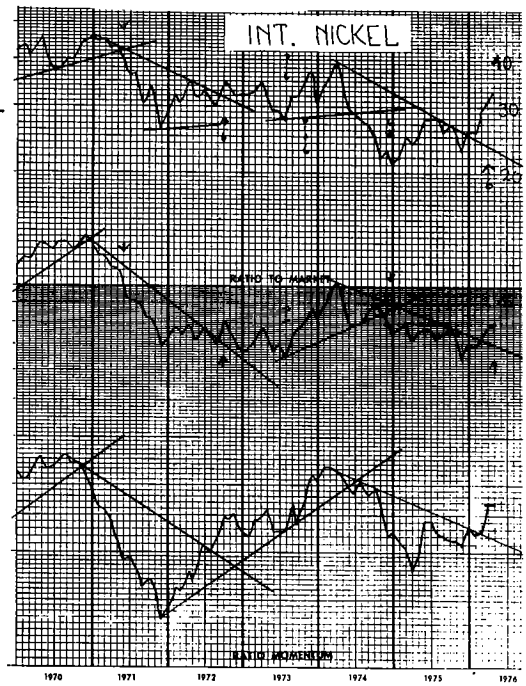
If that is that case, the northern half of the United States will receive more rain, but it will be drier in the Gulf Coast, Southwest and northern Rockies, he said, adding that on balance, this probably would not significantly affect U.S. food production.

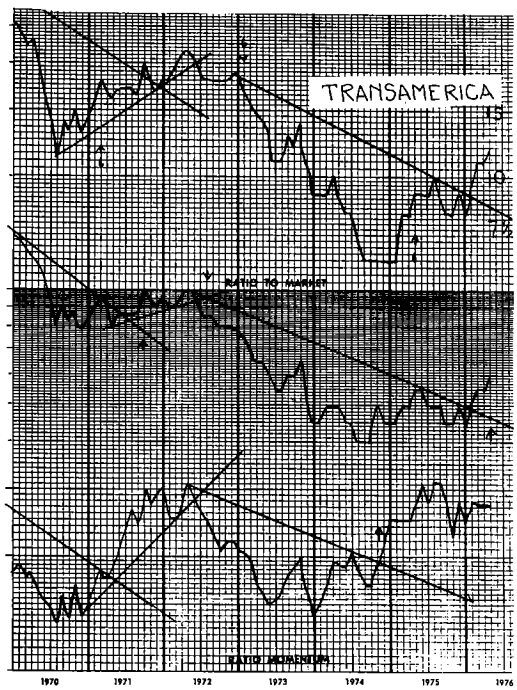
safest and best situations are taken on the basis of rising relative strength trends within bull markets.

On this page I have included four stocks with recent RS breakouts (charts courtesy of Ray*Signals, 43 Lake Ave., Montrose, PA 18801). The top line on the chart indicates price, the second line indicates RS against the S&P 500, and the bottom line represents the ratio of RS. Note that there are two finance-oriented stocks (Transamerica and Beneficial) while the other two are metals.

LATE NOTES: Fear and suspicion are still rampant in this market. Shakeout after shakeout appears to be needed before the market can reach an oversold state. The 968.28 Dow level of April 9 (the last low) is the place to watch while 200 on the Transportation Average would be the confirming point. I say 200 because often the big, even numbers have psychological significance and the April 12 Transport low was just a hair over 200. A breaking of those two levels on increasing volume would constitute proof of a secondary downtrend. However, resistance to those downside levels by one or both Averages would be bullish. Utilities are retaining their improved RS characteristics, a good sign.

I just received the May Bank Credit Analyst, and I note that Editor Tony Boeckh remains optimistic about the longer term bull market (as do I). He states that the continued liquidation of loans in the banking system ("the strongest in the post-War period") is an important characteristic of this scene. In general, Boeckh notes that investors are focusing on the confusing short-term scene while being almost oblivious of the fact that the real speculation has not yet been seen in this bull market. All very hopeful for long-term investors but frustrating to live through if you own stocks today. This is the second phase of the bull market, and I have been warning that nothing comes easy in the second phase.





EAST: I'm leaving for Massachusetts on Wednesday, and I will be saying hello to many of the leading Eastern market analysts. I'll also be speaking before these gentlemen, and I hope it proves to be a happy experience on both sides. As fate would have it, the market is in one of its larger dips (Dow down 10 points) as this is written. Well, the obvious is this—the Dow likes 1000 the way Detroit likes Toyotas. But I'm always telling people to distrust the obvious....

Next Letter (after a two week pause) will be mailed May 19. Stay healthy, and get angry once in a while!